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IN THE

Supreme Court of the United States

EBAY INC.,

Petitioner,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR *AMICUS CURIAE* STEVEN M. HOFFBERG SUPPORTING RESPONDENT

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

This brief *amicus curiae* is submitted in support of respondent by the Steven M. Hoffberg (hereinafter "Amicus"), partner of Milde & Hoffberg, LLP, who is a practicing intellectual property attorney and inventor[1]. Amicus handles cases in the areas of patent, copyright, trademark, trade secret and other intellectual property law, especially patent prosecution, licensing and strategic guidance to clients, but also in litigation.

Amicus, as many intellectual property attorneys, assists businesses in many industries that own, enforce and challenge patents as well represents individual patent owners. Amicus has had the opportunity, on occasion, to enter into licensing discussions on behalf of his clients, seeking to sell or license patents. In many such cases, the highest bidder, or even only bidder, is an entity who itself seeks to out-license the patent rights.

On the other hand, it has been Amicus' experience that corporations which produce product rarely tender offers for patent rights belonging to third parties, and thus willingly permit patents which are relevant to their business to fall into the hands of investors or entities which have a business model of licensing and enforcing patents.

Amicus submits this brief to inform the Court, as to realities of the patent system from the perspective of a patent attorney who both advises clients and who pursues commercialization and licensing of inventions himself.

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1. Pursuant to SUP. CT. R. 37.6, the amicus and its counsel represent that they have authored this brief in whole, and that no person or entity other than the *amicus curiae* and its counsel have made a monetary contribution to the preparation or submission of this brief. Petitioners and respondent have filed blanket consents with the Clerk of the Court to permit the filing of this and other briefs *amicus curiae*.

Amicus is named inventor of U.S. Patent Nos. 7,006,881, 6,865,825, 6,850,252, 6,791,472, 6,640,145, 6,429,812, 6,418,424, 6,400,996, 6,252,544, 6,230,501, 6,081,750, 5,920,477, 5,903,454, 5,901,246, 5,875,108, 5,867,386, and 5,774,357.

Nowhere is the rational and considered application of principles of patent law more important to the economy of the United States than in determining whether and to what extent alleged equitable defenses should preclude issuance of the post-trial permanent injunctions which, as this Court has recognized for almost 200 years, lie at the very heart of the patent system contemplated by the framers of the Constitution.

In order to properly advise it's clients, Amicus must be continuously apprised of the precedents of this Court which interpret the equitable defenses available to accused infringers or otherwise relate to the availability of permanent injunctive relief after a patent has been held infringed, not invalid and not unenforceable.

Likewise, in representing clients before the United States Patent and Trademark Office, Amicus must be acutely sensitive to decisions which affect the availability of injunctive relief to patent owners. The right to sue for a permanent injunction against infringement represents an important element of the total value of a patent to its owner – often 100% of that value where the development either is covered by a patent obtained purely for "defensive" purposes or represents a potentially valuable but "blocked" improvement which the innovator is unable to practice in the absence of a license.[2]

Additionally, Amicus counsels clients regarding transactions under which financing for research and development ("R&D") is obtained through the transfer of either patent rights or security interests in such rights. In the hands of either the inventor or her direct or indirect assignee, the right to exclude via a permanent injunction always represents a substantial portion of the economic justification for the

2. For a potential entrant, the injunction threat often provides the economic justification for a cross-license which enables both parties to practice the improvement. For a non-user who seeks to market a significant improvement, the potential for such an injunction is often the only leverage to guarantee that an entrenched oligopsony will either be forced to pay a fair price for use of the improvement or forego such use for the period established by Congress.

licensing, mortgage or assignment transaction necessary to obtain the financing for such R&D. Absent the continued availability of the right to exclude others via permanent injunction, R&D financing for novel but "blocked" technology often could not be obtained – either from within an innovator's own corporate structure or from some third party.

Such R&D financing can originate either from an entity already participating in the industry to which the improvement relates, an entity which wishes to enter that industry, or an entity that is willing to provide development financing but has no intention of commercializing the improvement itself by either entering the industry or integrating vertically – firms which petitioner and respondent characterize with some measure of decorum as non-practicing entities ("NPEs"), but which most *amici* supporting petitioner characterize as "patent trolls". The terminology, however, is important primarily for the polarizing rhetoric it contributes to the debate. One man's entrepreneur is often another man's patent troll, and NPEs unquestionably come in a variety of flavors.

Some NPEs (like respondent) internally develop the inventive concepts they own or control, while others merely function as financial middlemen that purchase assignments, licenses or mortgages in the improvement developments of others and plan to recoup their investment by sharing in licensing royalties or assigning or licensing to others the right to use those improvements.[3] Both types of NPEs contribute to the "progress of science and the useful arts" that the framers of the Constitution intended the patent law to promote.[4]

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3. Some *amici* supporting petitioners propose that only non-users who conduct internal R&D should be accorded the benefits of this Court's decisions in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) ("*Paper Bag*"), and *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945) ("*Special Equipment*"). The others apparently propose that this Court's rule be jettisoned entirely.

4. U.S. CONST., Art. I, § 8, cl. 8 ("the Patent Clause").

It is also possible to define NPEs more broadly as a much larger genus of all firms which own patents but have elected not to practice the subject matter of some of those patents themselves.[5] *Paper Bag* and *Special Equipment*, the seminal decisions of this Court discussing the obligation to issue injunctions despite non-use by the patent owner, involved not NPEs in the narrower sense but firms which were already industry factors but had elected not to practice their improvement inventions.

Amicus respectfully submits that any change in the long-established rule that non-use does not give rise to an equitable defense barring injunctive relief, necessarily would generate both great confusion in the district courts and substantial economic dislocation.[6]

If the rule were changed, Amicus, who neither manufactures product, nor renders services, covered by his patent, would have to review its own portfolio to determine whether any of its patent assets were threatened with unenforceability under the new rule. Moreover, all contracts and licenses relating both to Amicus' clients patent portfolios and to those patents which had been licensed in from others necessarily would have to be reviewed and reevaluated.

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5. Under that usage, many of the *amici* supporting petitioners could be characterized as NPEs since many have accumulated large portfolios of patents, some of which they are not currently practicing. As new technologies develop, however, such unused patents can become important either for purely "defensive" purposes or to provide leverage for use in obtaining operating rights in such new technology areas.

6. Petitioners and their supporting *amici* apparently believe that the threat of district court injunctions forces settlements that effectively preclude ultimate vindication before the Federal Circuit. If that is true, then the appropriate remedy probably lies in procedural changes which would be far less disruptive than any drastic substantive change to the well-settled principle that non-use does not give rise to an equitable defense barring entry of a patent injunction. For example, more liberal availability of a stay pending appeal under FED. R. CIV. P. 62(c) in patent injunction cases might be explored.

In many instances, the security interests which had been designed to guarantee recoupment of R&D financing costs would prove worthless. Under such circumstances, venture capital markets would be severely stressed and might well dry up entirely.

In the course of evaluating some of the alleged problems of which petitioners and their *amici* complain, it is possible that Congress ultimately may conclude that injunctive relief should be eliminated for some narrow class of patents or even for some industry segment.[7] Amicus respectfully submits that, for at least three separate reasons, this Court should reject petitioners' broader assault on the injunction statute and leave resolution of their alleged problems to Congress.

POSITION OF *AMICUS CURIAE* REGARDING QUESTIONS PRESENTED

The Contentions Of Petitioners And Supporting *Amici*

After a trial at which they failed to establish any cognizable equitable or legal defenses,[8] petitioners were adjudicated willful infringers of one of two valid "business methods" patents

7. As pointed out in the brief *amicus curiae* of the Franklin Pierce Law Center professors in support of respondent ("FPLC Br."), Congress already has enacted compulsory licensing in certain narrow areas such as under the Clean Air Act (FPLC Br. at 3-4).

8. At various points, petitioners' brief on the merits ("Pet. Br.") suggests (a) that the business method claims of respondent were "vaguely defined" (Pet. Br. at 2) or merely "vague" (Pet. Br. at 38); (b) that the district court found "compelling evidence" of non-infringement (Pet Br. at 6); (c) that business method claims are associated with a "heightened possibility of invalidity" (Pet. Br. at 11); (d) that the timing of the filing of respondent's amended claims might somehow give rise to a defense of equitable estoppel or prosecution history estoppel (Pet. Br. at 4-5); and (e) that respondent's conduct at a June 2000 meeting also might give rise to a defense of equitable estoppel (Pet. Br. at 5-6). Those alleged defenses, however, were merged into the district court's judgment and are not before this Court.

relating to fixed-price purchase technology. They now seek to sustain the district court's refusal to enter a permanent injunction, which the court below reversed as an abuse of discretion, on the principal ground that respondent does not compete directly with them or practice its patents. This failure to practice, the district court found, somehow altered the balance of equities to the point where the public interest in "the progress of science and the useful arts" no longer compelled issuance of a permanent injunction.

Petitioners clearly imply that this Court should abandon the long-settled rule of *Paper Bag* and *Special Equipment* in any case involving business methods patents. Some supporting *amici* explicitly endorse that same suggestion. Others proffer a disparate and sometimes inconsistent catalogue of complaints, all of which likewise allegedly should compel rejection of the *Paper Bag* rule whenever established by the evidence.[9]

In addition to the class of business methods patents (and a subcategory of such patents that allegedly could impede First Amendment free speech by shutting down "blogs"), such complaints are said to arise from both overly broad claims of "dubious technical merit" on the one hand and narrow improvement claims on the other (neither of which, it is said, should be deemed sufficient to support an injunction); infringement determinations predicated upon the presence of "trifling", "de minimis" or "trace" amounts of a claimed chemical (or crystalline form of that chemical); the alleged widespread prevalence of "inadvertent infringement"; "patent thickets" which make it difficult and expensive to secure freedom to operate opinions from counsel; "submarine" patents which result from "gaming" the continuation practice specified

9. Apparently, *amici* do not claim that any of these additional circumstances were established by the evidence presented to the district court, but rather suggest only that they present additional theoretical justification for abandonment of the rule of Paper Bag and Special Equipment.

by the PTO's regulations; "gaming" of standards issued by SSOs; "holdups" and "highjackings" which can lead to "windfalls" and "disproportionate settlements"; and the alleged insufficiency of the new eighteen-month publication rule.[10]

The implication of this catalogue of complaints is that *Paper Bag* and *Special Equipment* should be overruled and Section 283 should be interpreted to vest district courts with discretionary power to deny permanent injunctive relief to a patentee who is not practicing his invention commercially whenever the infringement defendant can establish one of these alleged inequities. Neither petitioners nor their supporting *amici*, however, even attempt to provide any rational justification for addressing those complaints to this Court. Instead of bringing their complaints to Congress, where a number of proposals addressing some of the same putative problems already are pending, petitioners and their supporting *amici* ask this Court to alter its prior definitive interpretation of an injunction statute which has been re-enacted without any substantive change on a number of separate occasions – most recently in the 1952 codification of the patent law.

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10. It is of at least some historical interest that many of these complaints echo remarkably similar complaints voiced by the telephone and automobile industries more than a century ago. However, American Bell purchased the crucial improvement patents that had threatened its business shortly after this Court's decision in *United States v. American Bell Tel. Co.*, 167 U.S. 224 (1897) ("*Bell Telephone*"), and by the third anniversary of the Paper Bag decision, Henry Ford had succeeded in overcoming the infamous Selden "submarine" patent without the need for any change in the injunction statute or any other provision of the patent law. *See* H.C. Wegner, "Injunctive Relief: A Charming Betsy Boomerang" at 4 and 33-36, 1st Annual Northwestern Journal of Technology and Intellectual Property Symposium: IP Litigation in the 21st Century, Chicago (February 24, 2006) (available at *www.foley.com*) ("Wegner Paper"). The amicus understands that a further edited version of the Wegner Paper is to be published in the Northwestern Journal of Technology and Intellectual Property.

The amicus respectfully submits that this Court should refuse the invitation to create novel equitable defenses and leave to Congress the question of whether and to what extent there should be any alteration to the long-established rule that non-use does not represent an equitable defense barring entry of a permanent injunction.

Question 1

Question 1 should be answered in the negative. The Court of Appeals for the Federal Circuit did not err in holding that the district court's refusal to enter a permanent injunction represented an abuse of discretion. The district court predicated its finding that respondent had suffered no irreparable harm upon its conclusion that respondent "does not practice its inventions and exists merely to license its patented technology to others".[11] That conclusion was flatly inconsistent with the controlling *Paper Bag* and *Special Equipment* decisions of this Court – which the district court failed even to discuss.[12]

The "finding of infringement" to which Question 1 is addressed always presupposes either (a) parallel findings that the infringed patent also is not invalid and not unenforceable by virtue of any available equitable affirmative defenses, or (b) a waiver by the accused infringer, either explicitly or under the doctrine of *res judicata*, of any invalidity or equitable affirmative defenses either actually raised or which could have been raised at the infringement trial.

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11. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F.Supp.2d 695, 712 (E.D. Va. 2003).

12. In finding that "money damages are an adequate remedy to compensate" respondent "for any continuing infringement" (*id.* at 713), the district court cited *Foster v. American Foundry & Mach. Co.*, 492 F.2d 1317, 1324 (2d Cir. 1975) ("*Foster*") – another decision that had failed to discuss either Paper Bag or Special Equipment

Because of the central importance of the right to exclude under the Constitutional mandate and the controlling case law, where none of the traditional equitable defenses have been made out, the discretion of a district court to refuse a permanent injunction is indeed limited to "exceptional circumstances" – even where the patentee does not practice the patent. Because the right to a permanent injunction is crucial to the patent grant, after all alleged equitable defenses have been disposed of at trial, usually only circumstances relating to the public health and safety will prevent entry of a permanent injunction.[13] The pertinent provision is Section 283 of the patent statute, 35 U.S.C. § 283, which provides:

> The several courts having jurisdiction under this title **may** grant injunctions **in accordance with the principles of equity** to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.[14]

(Emphasis supplied). The language of the statute covers both preliminary and permanent injunctions. The "principles of equity" which the district courts are required to consider include not merely the separate balancing tests applicable to preliminary and permanent injunctions,[15] respectively, but also the entire

13. However, the Federal Circuit recognizes that both damages and permanent injunctions will sometimes be denied based upon equitable considerations unrelated to the public health and safety. *See, e.g., A.C. Auckerman Co. v. R.L. Chades Const. Co.*, 960 F.2d 1020 (Fed. Cir. 1992) (en banc) (laches and equitable estoppel).

14. The language of this statute has remained virtually the same since its initial enactment in 1819. The statute was last re-enacted as part of the 1952 codification of the patent statute.

15. In their brief on the merits, petitioners are thus incorrect in purporting to explain the language of the statute as limiting "[t]hose familiar equitable principles" to "irreparable injury, adequacy of the remedy at law, balancing of the hardships, and the public interest" (Pet. Br. 2).

range of equitable defenses, including most prominently the unclean hands principle and the doctrine of patent misuse.

Question 2

Question 2 likewise should be answered in the negative. The Court's *Paper Bag* and *Special Equipment* decisions concern only one aspect of a lengthy and far broader colloquy between this Court and Congress as to which alleged equitable defenses will be deemed sufficient to bar permanent injunctive relief under Section 283 and its predecessor statutes – which have remained virtually unchanged since 1819. When Congress disagrees with a decision of this Court which affects the entitlement of a patentee to a permanent injunction, it can and will overrule that decision by changing the patent statute. In fact, Congress did just that in 1952 and again in 1988 when it concluded that this Court had unduly expanded the misuse doctrine in two separate respects – as the Court recognized in *Dawson Chemical* and reaffirmed just last week in *Independent Ink*.[16]

In sharp contradistinction, with full knowledge of this Court's *Paper Bag* and *Special Equipment* rulings, Congress re-enacted Section 283 in 1952 without any substantive alteration.[17]

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16. *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S.176 (1980) ("*Dawson Chemical*"); *Illinois Tool Works Inc v. Independent Ink, Inc.*, 547 U.S. __, No. 04-1329 (Mar. 1, 2006) ("*Illinois Tool Works*").

17. Paper Bag itself noted that, with the exception of a single four-year experiment with a working requirement for alien patentees, Congress had never modified the non-user patentee's right to a permanent injunction, and previously had rejected a number of specific proposals to make such a change (210 U.S. at 429). In *Hartford-Empire Co v. United States*, 329 U.S. 386, 433 (1945) ("*Hartford-Empire*"), this Court noted that, in the intervening 37 years, Congress had rejected no less than twelve separate proposals to alter the Paper Bagb rule by imposing a forfeiture or compulsory license for a patentee's non-use. (Cont'd)

HISTORICAL CHRONOLOGY

The amicus notes that a number of the *amicus* filings, including some in support of petitioner, set forth useful narratives of the historical background for this Court's *Paper Bag* and *Special Equipment* decisions within the broader perspective of the development since 1819 of the patentee's right to a permanent injunction pursuant to the Constitutional mandate that the rights of a patentee should be "exclusive". In the spirit of SUP. CT. R. 37.1, the amicus will attempt to avoid repetition of that lengthy history except to the extent necessary for the purpose of supporting the new and different arguments of the amicus.

In the following historical chronology, therefore, the amicus will attempt to minimize duplication by making reference where appropriate to one or more of the following previously filed briefs (a) the brief of respondent opposing the grant of *certiorari* ("Opp."), (b) the brief *amici curiae* in support of neither party of the American Intellectual Property Law Association and Federal Bar Council ("AIPLA/FBC Br."), (c) the FPLC brief, (d) the brief *amicus curiae* in support of neither party of the Bar Association of the District of Columbia ("BADC Br."); and the brief of of Qualcomm Incorporated, *et al.* in support of respondent opposing *certiorari* ("Qualcomm Br.").

In 1803 this Court held that domestic law should, to the extent possible, be construed in a fashion consistent with the treaty obligations of the United States. *Murray v. The Schooner Charming Betsy*, 6 U.S. 64 (1803) ("*Charming Betsy*").

In 1813, six years before enactment of the first federal patent injunction statute, Chief Justice Marshall found that the

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(Cont'd)

In *Dawson Chemical*, 448 U.S. at 215 n.21, moreover, the Court noted both that compulsory licensing again had been proposed but not enacted in the 1952 codification of the patent laws, and again proposed but rejected in 1959.

"inchoate property right" of a patent "is exclusive". *Evans v. Jordan*, 8 F. Cas. 872, 873 (C.C.D. Va. 1813), *aff'd*, 13 U.S. 199 (1815) (Opp. at 15-16).

In 1814 Justice Story addressed the "blocking" situation and noted that the "original inventor of a machine is exclusively entitled to a patent for it. If another person invent an improvement on such machine, he can entitle himself to a patent for such improvement only, and does not thereby acquire a right to patent and use the original machine". *Odiorne v. Winkley*, 18 F. Cas. 581, 582 (C.C.D. Mass. 1814).

In 1817 Justice Story articulated an early formulation of the patentee's bargain with the public, noting that the "exclusive patent-right" is conferred "as an encouragement and reward for his ingenuity". *Lowell v. Lewis*, 15 F. Cas. 1018, 1020 (C.C.D. Mass. 1817).

In 1819 Congress enacted the first injunction statute under the federal patent law. In the preceding years, beginning with the federal patent act of 1790, injunctive relief had been available to a patentee in the state courts and often in the federal courts as well.[18]

In 1824 Justice Story again discussed the "exclusive right" of the patentee in *Ex parte Wood*, 22 U.S. 603, 608 (1824) (Opp. at 16; Qualcomm Br. at 8).

In 1832 Chief Justice Marshall announced that to the "exclusive enjoyment of" the patentee's right to exclude during the period fixed by Congress, "the public faith is forever

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18. "The acts of Congress, prior to 1819, made no provision for any suit in equity by the owner of a patent, nor for his enjoyment of any form of equitable relief. Nevertheless, the Federal courts, following the decisions of the lords chancellors, held that equity had jurisdiction over patents for inventions, and could exercise its ordinary power in behalf of the patentee, whenever these were needed to give complete effect to the statue under which the patent had been granted."

3 WILLIAM C. ROBINSON, THE LAW OF PATENTS AND USEFUL INVENTIONS § 1082.

pledged". *Grant v. Raymond*, 31 U.S. 218, 242 (1832) (Opp. at 15; Qualcomm Br. at 8).

In 1852 Chief Justice Taney announced in *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852), that the "franchise which the patent grants, consists altogether in the right to exclude everyone from making, using or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent." (Opp. at 16)

In 1897 this Court, in a passage later quoted in *Paper Bag* (210 U.S. 424), rejected the notion that an inventor of a patented improvement "occupies, as it were, the position of a quasi trustee for the public; that he is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible." *Bell Telephone*, 167 U.S. at 250 (FP Br. at 5; Qualcomm Br. at 9).

In 1902 Congress enacted enabling legislation adopting the provisions of the 1897 Brussels version of the Paris Convention.

In 1908 this Court decided *Paper Bag* (Opp. at 3, 16; AIPLA/FBC Br. at 3,9, 22; FP Br. at 5-6; BADC Br. at7; Qualcomm Br. *passim*).

In 1911 Henry Ford successfully freed the automobile industry from the threat of the Selden patent. Wegner Paper at 3, 35. *See also Columbia Motor Car Co. v. C.A. Duerr & Co.*, 184 Fed. 893, 896 (2nd Cir. 1911).

In 1922 this Court reiterated that "the franchise secured by the patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee". *United Shoe Mach Co. v. United States*, 258 U.S. 451, 463 (1922) (AIPLA/FBC Br. at 9).

In 1923 the *Paper Bag* rule was again endorsed in *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923) ("*Crown Die & Tool*") (Opp. at 18; Qualcomm Br. at 9).

In 1942 this Court ruled that patent tying represented an equitable defense to an infringement suit under the misuse doctrine. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (FP Br. at 4).

In 1944 the Court ruled that a patentee who initiated a suit for contributory infringement was guilty of a *per se* misuse. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) ("*Mercoid I*").

In 1945 this Court again explained that the owner of a patent "is not in the position of a quasi-trustee for the public" and "has no obligation either to use it or to grant its use to others". So long as "he discloses the invention in his application so that it will come into the public domain at the end of the" fixed "period of exclusive right he has fulfilled the only obligation imposed by the statute." *Hartford-Empire*, 323 U.S. at 432-33 (AIPLA/FBC Br. at 22; Qualcomm Br. at 9).

In 1945 Chief Justice Stone reiterated the conclusion reached 37 years earlier in *Paper Bag* that "failure of the patentee to make use of the patented invention does not affect the validity of the patent". *Special Equipment*, 324 U.S. at 378-79 (FPLC Br. at 7-8).

In 1952 Congress codified the patent law in a comprehensive enactment that included both the present form of Section 283 and Sections 271 (c) and (d) (1) through (3) which were designed to overrule the result of *Mercoid I*.

In 1962 the Court ruled that a presumption of market power for antitrust tying purposes could be presumed from the existence of a patent or copyright. *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) ("*Loew's*").

In 1967 the Stockholm Revision of the Paris Convention was promulgated in its current form.

In 1969 in an opinion by Justice White the Court confirmed that the "heart of" the patentee's "legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent". *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) ("*Zenith v. Hazeltine*") (Opp. at 18).

In 1974 Chief Justice Burger characterized the patentee's bargain with the public as involving "adequate and full disclosure so that upon expiration" of the period of exclusivity "the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use". *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-81 (1974) ("*Kewanee Oil*") (citation omitted) (Opp. at 2, 14 n.5).

In 1980 the Court (a) recognized that Congress had legislatively overruled *Mercoid I* in the 1952 enactment of Sections 271(c) and 271(d)(1) through (3) of the patent statute, and (b) again stated that the "essence of a patent grant is the right to exclude others from profiting by the patented invention". *Dawson Chemical*, 448 U.S. at 176 (Opp. at 18; AIPLA/FBC Br. at 9; FPLC Br. at 8-9; Qualcomm Br. at 9)

In 1988 Congress enacted Section 271(d)(5) of the patent statute to legislatively overrule the presumption of *Loew's*.

In 1989 the Court articulated still another formulation of the patentee's bargain with the public, noting that the patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances" so that "upon expiration" of the period of exclusivity "the knowledge inures to the people, who are thus enabled without restriction to practice it and profit from its use". *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989) (citation omitted) ("*Bonito Boats*") (Opp. at 3; AIPLA/FBC Br. at 12; FPLC Br. at 2)

In 1994 the Agreement on Trade Related Aspects of Intellectual Property ("TRIPS") was negotiated as part of the creation of the World Trade Organization ("WTO").

In 1998 Justice Stevens articulated yet another formulation of the patentee's rights and obligations drawn largely from *Bonito Boats. Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998) ("*Pfaff*") (AIPLA/FBC Br. at 12; FPLC Br. at 2).

In 2001 the Administration threatened Bayer's exclusive manufacturing position on Cipro when it was feared that additional capacity might be required in the wake of the anthrax scare (FPLC Br. At 9).

In 2001 the United States challenged Brazilian compulsory licensing legislation as inconsistent with the requirements for valid local working requirements under the TRIPS Agreement (BADC Br. at 10).

In 2006, despite considerable Congressional discussion of the potential for an H5/N1 avian flu emergency, the Administration has not yet openly pressed Roche to license Tamiflu (FPLC Br. at 10).]

In 2006 the Court recognized that the enactment of Section 271(d)(5) by Congress had legislatively overruled Loew's. *Illinois Tool Works*, 547 U.S. at __, Slip Op. at __ (Mar. 1, 2006).

SUMMARY OF ARGUMENT

Rule 37.1

The amicus is mindful of this Court's directive that a brief for *amicus curiae* should be limited to "relevant matter not already brought to its attention by the parties". SUP. CT. R. 37.1.[19] The amicus therefore will endorse but will not repeat certain arguments previously set forth in other briefs.

19. The amicus has carefully reviewed the briefs of the parties and *amici* already on file, and every effort has been made to comply (Cont'd)

In the first place, the amicus adopts and will not repeat in its legal argument the cogent analyses set forth in three of the previously filed briefs as to why the district court's refusal to issue a permanent injunction under Section 283 represented an abuse of discretion that the Federal Circuit panel properly reversed (Opp. at 3-5, 10-14; AIPLA/FCB Br. at 8-19; FPLC Br. at 11-14). Additionally, references to other arguments set forth in previously filed briefs will be made throughout the Argument.

Point I

In Point I of the Argument, the amicus sets forth several non-duplicative reasons why, at this late stage, the Court should leave to Congress the decision as to whether to change the rule of *Paper Bag* and *Special Equipment* or otherwise expand the scope of the equitable defenses available to an accused infringer under Section 283.

In Point IA of the Argument, the amicus explains the significance of (1) the presence of two factors which provide "special force" for adhering to the rule of *Paper Bag* and *Special Equipment* under the *stare decisis* doctrine; (2) the Congressional re-enactment of an unchanged version of the statute in the 1952 codification despite full knowledge that this Court's *Special Equipment* decision had reaffirmed the *Paper Bag* rule only seven years previously; (3) the contemporaneous decision of Congress to overrule the 1944 *Mercoid I* case in the same 1952 enactment;[20] and the 1988 enactment of Sections 271(d)((5) of the patent statute, 35 U.S.C. §§ 271(d)(5);[21] and (4) the repeated refusals by Congress to enact any of the

(Cont'd)
with the spirit of Rule 37.1 by minimizing to the extent possible any overlap in factual subject matter and argumentation between this brief and those prior submissions.

20. *Dawson Chemical*, 448 U.S. at 614.

21. *Illinois Tool Works*, 547 U.S. at __, No. 04-1329, slip op. at 12-13.

numerous legislative proposals to make forfeiture or compulsory license the consequence of misuse.

In Point IB of the Argument, the amicus notes that citations to this Court by petitioners and their supporting *amici* of decisions setting forth standards for the issuance of injunctions under other federal statutes are inapposite. Injunction standards under statutes which do not arise under the Constitutional mandate of exclusivity are simply irrelevant to Section 283, which was designed to implement the "exclusive right" of the patentee which lies at "the heart of his legal monopoly".[22]

Point II

In Point IIA of the Argument, the amicus explains why, contrary to the assertions of petitioners and their supporting *amici*, the decisions of this Court supporting the right of a non-practicing entity patentee to exclude others from the practice of his claims "for limited times" is fully consistent with the objectives of the Constitutional mandate to "promote the progress of science and the useful arts".

In Point IIB of the Argument, the amicus explains why retention of the rule of *Paper Bag* and *Special Equipment* is economically important (1) for legitimate "defensive" patenting purposes; (2) to assure continued investment in R&D financing; and (3) to facilitate recovery of fair value for the contribution made to the "progress of science and the useful arts" by significant improvement patents, particularly those made and developed by smaller NPE inventors and investors.

In Point IIC of the Argument, the amicus submits that the efficient administration of justice also favors retention of the *Paper Bag* rule because unavailability of the permanent injunction would only create confusion in the district courts and the prospect of multiple damages trials.

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22. *Zenith v. Hazeltine*, 395 U.S. at 135.

Point III

In Point III of the Argument, the amicus comments upon the assertions of three *amici* regarding possible constraints on the interpretation of Section 283 which may arise from the treaty obligations of the United States under (a) the Paris Convention,[23] and (b) the TRIPS Agreement.[24] The amicus believes that the *Charming Betsy* canon presents an independent ground for barring re-interpretation of Section 283. Professor Lemley's *amicus* brief on behalf of the 52 professors supporting petitioners ("the Lemley brief") dismisses the notion that any problems with treaty obligations might arise from reversal in this action. The amicus respectfully disagrees.

As the BADC and FPLC briefs astutely point out, recent trade dip omacy and bilateral compromises by the Executive Branch appear motivated by a belief that, even where a foreign statute imposes a local working requirement, the TRIPS Agreement may oblige its members to provide for injunctive relief against patent infringement. *A fortiori*, in the absence of a Congressional enactment limiting the right to an injunction for non-use in this country, any judicial alteration of the rule of *Paper Bag* and *Special Equipment* likewise might run afoul of the TRIPS Agreement. It also seems clear that it would be difficult to justify any such judicial change as "legislative measures" under Art. 5A(2) of the Paris Convention.

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23. Paris Convention for the Protection of Industrial Property, Sept. 5, 1970, 21 U.S.T. 1583, 828 U.N.T.S. 305.

24. Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Dec. 15, 1993, 33 I.L.M. 81 (1994).

ARGUMENT

Point I

Any Novel Inroads On The Availability Of Injunctive Relief To Non-Practicing Patent Owners Under Section 283 Would Offend The Rule Of *Paper Bag* And *Special Equipment*

A. Affirmance Is Required Under The Rule Of *Paper Bag* And *Special Equipment*

Under the Patent Clause, the framers of the Constitution left to Congress the determination of how best to guarantee the "exclusive right" of the patentee "for limited times" in order to "promote the progress of science and the useful arts".[1] Since at least 1819 (when the first statute authorizing permanent injunctive relief to patentees in the federal courts was enacted), this Court consistently has recognized that the right to a permanent injunction represents the central element – and usually the **only** element – of the exclusive right that a patentee receives in return for her contribution to "the progress of science and the useful arts".

The availability of injunctive relief when equitable defenses are asserted always must be determined against the background of the origin of that patent right in the Constitution. Another background factor is that this Court's prior rulings in *Paper Bag* and *Special Equipment* represent a relatively narrow but important facet of a far broader dialogue regarding the availability of injunctive relief generally in patent cases.

1. The *Stare Decisis* Doctrine

In *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989), this Court said that only "special justification" will permit departure from the doctrine of *stare decisis* because the principle is of such "fundamental importance to the rule of law". Additionally, the Court found that the doctrine applies with

"special force in the area of statutory interpretation" for a reason that should control disposition of this case:

> in the area of statutory interpretation, . . . unlike in the context of constitutional interpretation, **the legislative power is implicated and Congress remains free to alter what we have done.**

(Citations omitted) (emphasis supplied). This Court's interpretations of the injunction statute in *Paper Bag* and *Special Equipment* unquestionably qualify as "statutory interpretation" under this rubric.

An additional ground for refusing to depart from the *stare decisis* principle in the case of *Paper Bag* and *Special Equipment* can be found in *Payne v. Tennessee*, 501 U.S. 808, 828 (1991), where the Court announced that the factors favoring *stare decisis* "are at their acme in cases involving property and contract rights, where reliance interests are involved".

The patentee's right to exclude under Section 283 was both codified by Congress and involves property and contract rights. *See Hartford-Empire*, 323 U.S. at 415 ("That a patent is property, protected against appropriation both by individuals and by government, has long been settled."); *Crown Die & Tool*, 261 U.S. at 40 ("Patent property is the creature of statute law").

2. Congressional Re-Enactment Of Section 283

This Court has held that Congressional inaction and the passage of time also will enhances the applicability of the *stare decisis* doctrine. In *Shepard v. United States*, 544 U.S. 13, 20-21 (2005), the Court said:

> In this instance, time has enhanced even the usual precedential force, nearly 15 years having passed since *Taylor* came down, without any action by Congress to modify the statute as subject to our understanding.

A fortiori, since Congress re-enacted virtually the same injunction statute in 1952, 44 years after *Paper Bag* and seven years after *Special Equipment*, the *stare decisis* principle necessarily must mandate affirmance.

What is more, the repeated rejection by Congress of the various forfeiture and compulsory licensing proposals discussed in *Paper Bag*, *Hartford-Empire* and *Dawson Chemical* only adds weight to the conclusion that alteration of the rule should be left to Congress. Indeed, yet another proposal to make non-use a bar to injunctive relief was dropped from H.R. 2795 just last year (see BADC Br. at 8-9).

3. Congressional Disagreement With Misuse Decisions

Congress took no remedial action when this Court refused to create a novel equitable defense in *Paper Bag*; it took no action when that ruling was followed in *Special Equipment*; and it has repeatedly and steadfastly refused to enact any legislation tantamount to creation of that same putative equitable defense of non-use.

When this Court did create a novel equitable defense in *Mercoid I*, however, Congress vitiated that ruling by enacting Sections 271(c) and (d)(1) through (3) as part of the 1952 patent act codification. When this Court created an evidentiary presumption having the effect of making an equitable defense to a patent injunction more widely available in *Loew's*, Congress obviated that result by enacting Section 271(d)(5) in 1988.

Congress has repeatedly demonstrated that it is capable of dealing with decisions of this Court with which it disagrees. Its failure to deal with the rule of *Paper Bag* and *Special Equipment* for 98 years speaks volumes.

B. Injunction Cases Construing Other Statutes Are Inapposite

Most of the injunction cases cited by petitioners and their supporting *amici* relate to federal statutes other than the patent law.[25] None of those cases, therefore, involved the patentee's bargain with the public or required consideration of the Constitutional guarantee of exclusivity which the patentee receives in return for the disclosure of his invention.

By way of example, the case other than *Paper Bag* most cited by petitioners is *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982) ("*Romero-Barcelo*"). Another case frequently cited by petitioners and their supporting *amici* is *Amoco Prod. Co. v. Vill. of Gambell, Alaska*, 480 U.S. 531 (1987) ("*Amoco*"). *Romero-Barcelo* involved injunctive relief under the Federal Water Pollution Control Act ("FWPCA") and *Amoco* involved injunctions to prevent violations of the Alaska National Interests Lands Conservation Act ("ANILCA") (Pet. Br. 19). Manifestly, those statutes were not mandated by the Constitution and decisions construing them have nothing whatsoever to do with the injunctive relief necessary to preserve the "exclusive right" of the patentee under the Patent Clause to which "the public faith is forever pledged".

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25. Foster is the only patent injunction case cited prominently by petitioners and their supporting *amici*. It was decided eight years before the Federal Circuit was established and, as already noted, failed to cite either *Paper Bag* or *Special Equipment*.

Point II

Any Novel Inroads On The Availability Of Injunctive Relief To Non-Practicing Patent Owners Under Section 283 Could Thwart "The Progress Of Science And The Useful Arts"

A. Disclosure By The Patentee Is All That Is Required

Contrary to the assertions of petitioners and some of their supporting *amici*,[26] this Court has repeatedly concluded that the right of a non-practicing entity patentee to exclude others from the practice of his claims "for limited times" is fully consistent with the Constitutional objective of promoting "the progress of science and the useful arts".

In *Bell Telephone*, the Court ruled definitively that the patentee is not in "the position of a quasi trustee for the public" and is under no "moral obligation" to make his invention available "as soon as is conveniently possible". 167 U.S. at 250. This language was explicitly endorsed in the *Paper Bag* ruling itself. 210 U.S. at 424. In *Hartford-Empire*, the Court paraphrased the *Bell Telephone* language and announced that the benefit to the public arises principally "at the end of" the "period of exclusive rights". 323 U.S. at 432.

The inventor's contribution to the "progress of science and the useful arts" is now disclosed to the public either upon issuance of the patent or eighteen months after filing, whichever occurs first. Members of the public are thereupon free to engage in non-commercial experimentation regarding that disclosure

26. Perhaps the most extreme example of this view is the argument that commercialization by a patentee is required because the word "progress" in the Patent Clause of the Constitution must be construed to mean "distribution". See the *amicus* brief of Professor Malla Pollack and other legal scholars in support of petitioners ("Pollack Br."). Thus, *amici* argue that the "Constitution gives Congress the power to enact only such patent statutes as promote the distributionof useful technology" (Pollack Br. at 4) (emphasis supplied).

and to devise and file patent applications regarding improvements thereto, but are not free to practice the patent without the permission of the patentee prior to the expiration of the term established by Congress.

These basic principles have been reinforced by the Court's subsequent decisions in *Kewanee Oil* (416 U.S. at 480-81), *Bonito Boats* (489 U.S. at 150-51) and *Pfaff* (525 U.S. at 63).

B. The Economics Of Non-Use

As the foregoing analysis demonstrates, non-use by a patentee during the term of his exclusivity is presumptively legitimate under the Patent Clause and the patent statute. There are, moreover, a number of economic justifications for the decision by a NPE not to commercialize.

In *Paper Bag* itself, the Court discussed possible reasons for why the patentee had "locked up" its invention (210 U.S. at 427), and found that capital requirements for replacement of older machines could "make more money" (*id.* at 428). The patentee's purpose in *Special Equipment* was to prevent appropriation of the value of another invention by securing a patent on a less economic alternative.

The dual role of "defensive" patenting already has been explained, as has the need to encourage the continued supply of the capital to finance R&D. Indeed, several federal courts have recognized the fact that the one purpose of the assignment statute, 35 U.S.C. § 261, is to ensure that capital is available to inventors who are unable to finance R&D internally. *See, e.g., S.C.M. Corp. v. Xerox Corp.*, 645 F.2d 1195 (2nd Cir. 1981).

As a practical matter, moreover, barriers to entry will often prevent a relatively small firm that is active in an unintegrated segment of a market or on the fringes of a large industry from direct commercialization of an improvement. By the same token, marketing of that improvement to the existing members of the industry often can be hampered by the economic disparity

between the parties to the negotiation. Oligopsony conditions in an industry sometimes can exacerbate the problem, particularly where an SSO or patent pool is operating in an industry.

In short, economic analysis also militates against any departure from the rule of *PaperBag* and *Special Equipment*.

C. The Prospect Of Repetitive Damages Determinations

The efficient administration of justice also favors retention of the *Paper Bag* rule, since unavailability of the permanent injunction would only create confusion in the district courts and the prospect of multiple damages trials. The amicus endorses and will not repeat the cogent analysis of the issue by the FPLC professors (FPLC brief at 10).

Point III

Any Novel Inroads On The Availability Of Injunctive Relief To Non-Practicing Patent Owners Under Section 283 Might Affect The Treaty Obligations Of The United States

The amicus respectfully submits that certain constraints on the reinterpretation of Section 283 by this Court may arise from the treaty obligations of the United States under (a) the TRIPS Agreement,[27] and (b) the Paris Convention.[28] If this Court should decide that the rule of *Paper Bag* should be changed, it would then have to determine whether such a change would be consistent with the *Charming Betsy* canon.

A. The Pertinent Treaty Provisions

1. The TRIPS Agreement

Article 28 of the TRIPS Agreement, of which the United States is a member, requires that the patent system of each

27. TRIPS, Art. 28.

28. Paris Convention, Art. 5A(2), Stockholm Revision (1967).

member state provide for "exclusive rights". Articles 30 and 31 provide for "limited exceptions" to those exclusive rights. Article 41 requires the availability of enforcement procedures. Article 44 mandates the availability of injunctions for all situations other than (a) where the infringing acquisition was made prior to actual or imputed knowledge of the rights infringed (Article 44.1), or (b) where injunctive remedies in particular cases are "inconsistent with a Member's law" (Article 44.2).

2. The Paris Convention

Article 5A(2) of the Paris Convention, to which the United States is also a party, provides that the grant of compulsory licenses can only be authorized by "legislative measures".

B. The Lemley Brief Arguments

The Lemley brief argues that the "Member's law" exception of Article 44.2 of the TRIPS Agreement should be read to authorize a case-by-case consideration of when the right to an injunction can be denied (Lemley Br. at 10-11). The principal problem with this approach is that it ignores Article 5A(2) of the Paris Convention. Under that provision, "legislative measures" would be required to change the rule of *Paper Bag* and *Special Equipment*. In the absence of an act of Congress, there can be no assurance that the result sought by petitioners would comply with the treaty obligations of the United States.

The Lemley brief also suggests that it "would be unreasonable to interpret a 1952 statute in a way contrary to its terms on the theory that it must be read as consistent with a treaty not adopted until four decades later" (Lemley Br. at 11).

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29. Nor, of course, does the amicus agree that Paper Bag and Special Equipment are "contrary to" the "terms" of Section 283.

Yet that is exactly what the *Charming Betsy* canon requires.[29]

C. Recent Trade Diplomacy Developments

The amicus will not repeat the BADC's useful discussion of the significance of the Executive Branch's challenge to the 2001 Brazilian compulsory licensing legislation as inconsistent with the requirements of valid local working requirements under the TRIPS Agreement (BADC Br. at 10).

The amicus also will not repeat the discussion treatment in the FPLC brief of the Administration's activities in respect of Cipro in 2001 and Tamiflu more recently (FPLC Br. at 9-10).

The recent bilateral trade compromises of the Executive Branch and its apparent reluctance to interfere with patent exclusivity even in areas that concern the public health and safety seem motivated by a belief that, in the absence of a local statute imposing a working requirement, the TRIPS Agreement obliges its members to provide for injunctive relief against patent infringement. In the absence of any Congressional enactment limiting the right to an injunction for non-use, the Court should decline to alter the rule of *Paper Bag* and *Special Equipment*

for that reason as well.

CONCLUSION

If the balance between the objectives formulated by the framers of the Constitution should become skewed either in particular industries or with respect to particular categories of patents, any necessary changes in the statutory scheme should be effectuated only after careful Congressional deliberations. This Court should not attempt to anticipate any such Congressional changes and the amicus respectfully submits that the Court's role should be limited to reviewing any such changes that Congress may enact for compliance with the Constitutional mandate. The judgment of the Federal Circuit should be affirmed.

Respectfully submitted,

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